

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Township of Clay</u>	County St. Clair
Audit Date June 30, 2004	Opinion Date August 25, 2004	Date Accountant Report Submitted To State: November 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature <i>Plante & Moran, PLLC</i>			

**Township of Clay
St. Clair County, Michigan**

**Financial Report
with Supplemental Information
June 30, 2004**

Township of Clay

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Independent Auditor's Report

To the Members of the Township Board
Township of Clay
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township of Clay's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Township of Clay as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Members of the Township Board
Township of Clay
St. Clair County, Michigan

The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information is presented for the purpose of additional analysis. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Clay. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note I, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003. As discussed in Note I, the Township changed its method of accounting for state-shared revenue.

Plante & Moran, PLLC

August 25, 2004

Township of Clay

Management's Discussion and Analysis

Our discussion and analysis of the Township of Clay, Michigan's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- Governmental activities included approximately \$900,000 of capital additions relating to the purchase of public safety vehicles, restoration of the Colony Tower, and completion of the mausoleum at the Oaklawn Cemetery.
- The Township used cash and investments of the Water Fund to currently redeem \$765,000 of outstanding 1979 Series C Water revenue bonds with an average interest rate of 5 percent.
- The Township continued to advance fund a portion of its postretirement health care obligation by contributing a combined total of \$110,000 to the Employee Health Care Trust Fund from the General, Police, and Water Funds.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

Township of Clay

Management's Discussion and Analysis (Continued)

The Township as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year (in millions of dollars):

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current assets	\$ 5.0	\$ 5.9	\$ 3.1	\$ 0.9	\$ 8.1	\$ 6.8
Noncurrent assets:						
Restricted assets and other	-	-	9.3	13.7	9.3	13.7
Capital assets	4.2	3.8	18.6	18.7	22.8	22.5
Total assets	9.2	9.7	31.0	33.3	40.2	43.0
Liabilities						
Current liabilities	0.2	0.2	0.2	0.2	0.4	0.4
Long-term liabilities	1.9	2.1	12.8	14.3	14.7	16.4
Total liabilities	2.1	2.3	13.0	14.5	15.1	16.8
Net Assets						
Invested in capital assets -						
Net of related debt	3.5	3.5	10.0	9.3	13.5	12.8
Restricted	0.5	1.0	2.1	1.8	2.6	2.8
Unrestricted (deficit)	3.1	2.9	5.9	7.7	9.0	10.6
Total net assets	<u>\$ 7.1</u>	<u>\$ 7.4</u>	<u>\$ 18.0</u>	<u>\$ 18.8</u>	<u>\$ 25.1</u>	<u>\$ 26.2</u>

The Township's combined net assets decreased 4 percent from a year ago - decreasing from \$26.2 million to \$25.1 million.

A review of the governmental activities, separate from the business-type activities, shows a decrease of approximately \$.3 million in net assets, or 4 percent, during fiscal year 2004. This decrease was the result of tight budgeting and a continued reduction in state-shared revenue. The business-type activities experienced a 4.3 percent decrease in net assets as well. This was primarily due to increased scheduled interest payments on long-term debt and increased depreciation expense for recently completed water and sewer lines.

Unrestricted net assets in the governmental activities - the part of net assets that can be used to finance day-to-day operations - were \$3.1 million at June 30, 2004.

Township of Clay

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year. A comparative analysis will be presented in future years when prior year information is available (in millions of dollars):

TABLE 2

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 0.3	\$ 1.5	\$ 1.8
Operating grants and contributions	0.1	-	0.1
Capital grants and contributions	0.2	0.1	0.3
General revenue:			
Property taxes	3.0	-	3.0
State-shared revenue	0.8	-	0.8
Unrestricted investment earnings	0.1	0.3	0.4
Cable franchise fees	0.1	-	0.1
Total revenue	4.6	1.9	6.5
Program Expenses			
General government	0.9	-	0.9
Public safety	2.6	-	2.6
Public works	1.0	-	1.0
Community and economic development	0.1	-	0.1
Recreation and culture	0.1	-	0.1
Interest on long-term debt	0.1	-	0.1
Water and sewer	-	2.7	2.7
Total program expenses	4.8	2.7	7.5
Change in Net Assets	(0.2)	(0.8)	(1.0)
Net Assets - Beginning of year	7.3	18.8	26.1
Net Assets - End of year	<u>\$ 7.1</u>	<u>\$ 18.0</u>	<u>\$ 25.1</u>

Township of Clay

Management's Discussion and Analysis (Continued)

Governmental Activities

Revenues for governmental activities totaled \$4.6 million in 2004. A total of \$3.0 million was in the form of property tax collections, an increase of \$.2 million over 2003. This increase was the net result of a slight increase in taxable value netted against a .008 reduction in the Township's operating levy. The police and fire special assessment millages generated \$2.1 million of the total \$3.0 million of property taxes reported above. State-shared revenues continue to be of concern. While they provided \$.8 million, we are uncertain what will happen in 2005 given the State's financial difficulties. Charges for services, primarily inspection fees, generated \$.3 million in 2004.

Business-type Activities

The Township has two business-type activities, the water and sewer operations. Revenues from the combined business-type activities were \$1.9 million. The water and sewer operations consist of the following: Water is provided to the Township residents via the City of Algonac. Sewage treatment is provided by contracts with St. Clair County Department of Public Works. During 2004, a reduction in the cost of water and sewage disposal from the prior year (pertaining to a one-time sludge/wastewater disposal charge) was offset by a reduction in interest earnings.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2004 include the General Fund, Police Fund, Mainland Fire Fund, and Rubbish Collection Fund.

The General Fund pays for most of the City's governmental services, with the exception of public safety and rubbish related costs. Police enforcement is recorded in the Police Fund and fire services are recorded in the Mainland Fire, Harsen's Island Fire, and Russell Island Fire Funds. The Township records rubbish collection costs and the related charges for services in the Rubbish Collection Fund. Police, fire, and rubbish services are all supported by property taxes and/or specific charges for services.

General Fund Budgetary Highlights

Over the course of the year, the Township amended the original budget by only \$1,200. Total revenue was approximately \$260,000 less than expected as result of receiving less grant revenue than was anticipated. Actual General Fund expenditures were approximately \$468,000 less than budget due primarily to the delay of a park and recreation capital project.

Township of Clay

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

During the year, the Township used cash and investments of the Water Fund to currently refund \$765,000 of outstanding 1979 Series C Water revenue bonds with an average interest rate of 5 percent. In addition, the Township entered into a term note of \$37,897 related to the purchase of an airboat for Harsen's Island.

Economic Factors and Next Year's Budgets and Rates

Revenue sharing, as it was in 2003, continues to be the most significant budgetary concern at this time. The State of Michigan is experiencing significant structural budget problems, and as they look for solutions, revenue sharing continues to be under attack. The governor's proposed budget for 2004/2005 calls for a level funding for state revenue-sharing payments. Our community continues to weather the cuts in state-shared revenue in part due to very positive conservative actions of previous boards. Our current Board continues the conservative example of previous Boards, while always keeping our obligations to current and future residents as our beacon. Our community continues to grow, and we use our strategic future forecasts to plan for and budget for future needs.

As discussed above, we anticipate that the water and sewer rates will have to increase somewhat in 2006. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2005 to discuss the need for such an increase.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Township of Clay

Statement of Net Assets June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 4,072,443	\$ 2,583,282	\$ 6,655,725	\$ 528,878
Accounts receivable:				
Customer	-	344,220	344,220	-
Special assessments	671,289	2,613,511	3,284,800	-
Due from other governmental units	229,884	-	229,884	-
Inventories	-	116,951	116,951	-
Prepaid costs and other assets	-	4,595,542	4,595,542	-
Restricted assets (Note 8)	-	2,093,286	2,093,286	-
Capital assets - Net (Note 5):				
Capital assets not being depreciated	70,000	32,562	102,562	-
Capital assets being depreciated - Net	4,166,565	18,588,473	22,755,038	-
Total assets	9,210,181	30,967,827	40,178,008	528,878
Liabilities				
Accounts payable	13,176	111,765	124,941	10,193
Accrued and other liabilities	58,413	119,960	178,373	-
Performance bonds and deposits	92,508	-	92,508	-
Noncurrent liabilities (Note 7):				
Due within one year	200,503	747,404	947,907	-
Due in more than one year	1,701,477	12,022,481	13,723,958	-
Total liabilities	2,066,077	13,001,610	15,067,687	10,193
Net Assets				
Invested in capital assets - Net of related debt	3,479,585	10,017,714	13,497,299	-
Restricted:				
Law enforcement	251,297	-	251,297	-
Fire services	143,358	-	143,358	-
Special assessment capital projects	-	-	-	-
911 operations	62,696	-	62,696	-
Rubbish collection	23,622	-	23,622	-
D.A.R.E. operations	1,085	-	1,085	-
Oaklawn Cemetery	70,791	-	70,791	-
Street lighting	1,372	-	1,372	-
Road maintenance	42,334	-	42,334	-
Bond ordinance reserve	-	1,683,097	1,683,097	-
Equipment replacement	-	374,250	374,250	-
Unrestricted	3,067,964	5,891,156	8,959,120	518,685
Total net assets	\$ 7,144,104	\$ 17,966,217	\$ 25,110,321	\$ 518,685

Township of Clay

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 941,827	\$ 43,789	\$ -	\$ -
Public safety	2,583,044	182,704	59,014	119,305
Public works	1,009,668	36,707	5,955	55,320
Community and economic development	73,141	16,432	-	-
Recreation and culture	62,200	-	35,487	-
Interest on long-term debt	104,314	-	-	-
Total governmental activities	4,774,194	279,632	100,456	174,625
Business-type activities - Water and sewer:				
Water	1,794,460	1,081,584	-	96,759
Sewer	953,881	462,365	-	34,400
Total business-type activities	2,748,341	1,543,949	-	131,159
Total primary government	<u>\$ 7,522,535</u>	<u>\$ 1,823,581</u>	<u>\$ 100,456</u>	<u>\$ 305,784</u>
Component units - Downtown Development Authority	<u>\$ 107,723</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Cable franchise fees				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities Year Ended June 30, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (898,038)	\$ -	\$ (898,038)	\$ -
(2,222,021)	-	(2,222,021)	-
(911,686)	-	(911,686)	-
(56,709)	-	(56,709)	-
(26,713)	-	(26,713)	-
(104,314)	-	(104,314)	-
(4,219,481)	-	(4,219,481)	-
-	(616,117)	(616,117)	-
-	(457,116)	(457,116)	-
-	(1,073,233)	(1,073,233)	-
(4,219,481)	(1,073,233)	(5,292,714)	-
-	-	-	(107,723)
2,991,345	-	2,991,345	235,061
816,958	-	816,958	-
103,664	218,701	322,365	9,039
43,775	-	43,775	-
27,021	-	27,021	-
3,982,763	218,701	4,201,464	244,100
(236,718)	(854,532)	(1,091,250)	136,377
7,380,822	18,820,749	26,201,571	382,308
\$ 7,144,104	\$ 17,966,217	\$ 25,110,321	\$ 518,685

Township of Clay

Governmental Funds Balance Sheet June 30, 2004

	Major Special Revenue Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Police	Mainland Fire	Rubbish Collection		
Assets						
Cash and investments (Note 3)	\$ 2,741,465	\$ 411,531	\$ 112,008	\$ 26,882	\$ 780,557	\$ 4,072,443
Special assessments receivable	175,210	-	-	-	496,079	671,289
Due from other funds (Note 6)	94,038	-	-	-	-	94,038
Due from other governmental units	229,884	-	-	-	-	229,884
Total assets	<u>\$ 3,240,597</u>	<u>\$ 411,531</u>	<u>\$ 112,008</u>	<u>\$ 26,882</u>	<u>\$ 1,276,636</u>	<u>\$ 5,067,654</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 3,036	\$ -	\$ 1,682	\$ 3,260	\$ 5,198	\$ 13,176
Accrued and other liabilities	7,401	13,503	652	-	-	21,556
Due to other funds	-	94,038	-	-	-	94,038
Performance bonds and deposits	92,508	-	-	-	-	92,508
Deferred revenue (Note 4)	175,210	-	-	-	496,079	671,289
Total liabilities	278,155	107,541	2,334	3,260	501,277	892,567
Fund Balances						
Reserved for:						
Oaklawn Cemetery	-	-	-	-	50,518	50,518
Noncurrent receivable from Police Fund	94,038	-	-	-	-	94,038
911 operations	-	62,696	-	-	-	62,696
Law enforcement	-	241,294	-	-	10,003	251,297
Fire services	-	-	109,674	-	33,684	143,358
Unreserved, reported in:						
General Fund	2,868,404	-	-	-	-	2,868,404
Special Revenue Funds	-	-	-	23,622	66,087	89,709
Capital Projects Funds	-	-	-	-	615,067	615,067
Total fund balances	<u>2,962,442</u>	<u>303,990</u>	<u>109,674</u>	<u>23,622</u>	<u>775,359</u>	<u>4,175,087</u>
Total liabilities and fund balances	<u>\$ 3,240,597</u>	<u>\$ 411,531</u>	<u>\$ 112,008</u>	<u>\$ 26,882</u>	<u>\$ 1,276,636</u>	<u>\$ 5,067,654</u>
Fund balance - Total governmental funds						\$ 4,175,087
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and are not reported in the funds						4,236,565
Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures						671,289
Accrued interest payable on long-term debt is not recorded in the funds						(36,857)
Long-term liabilities are not due and payable in the current period and are not reported in the funds						(1,901,980)
Net assets of governmental activities						<u>\$ 7,144,104</u>

Township of Clay

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

	Major Special Revenue Funds				Other Nonmajor Governmental Funds	Total Governmental Funds
	General Fund	Police	Mainland Fire	Rubbish Collection		
Revenue						
Property taxes	\$ 376,402	\$ 1,601,044	\$ 358,492	\$ 479,880	\$ 175,527	\$ 2,991,345
Licenses and permits	131,193	-	-	-	-	131,193
Intergovernmental revenue:						
State sources	816,958	49,009	-	-	-	865,967
Local sources	35,487	-	-	-	-	35,487
Grant revenue	-	-	118,945	-	-	118,945
Charges for services	93,301	17,645	-	-	41,949	152,895
Investment income (loss)	51,924	4,894	(1,248)	123	47,971	103,664
Fines and forfeitures	-	22,071	-	-	-	22,071
Special and maintenance assessment	49,344	-	-	-	140,017	189,361
Other	33,753	23,225	2,956	1,533	9,898	71,365
Total revenue	1,588,362	1,717,888	479,145	481,536	415,362	4,682,293
Expenditures - Current						
General government	1,901,314	-	-	-	-	1,901,314
Police	-	1,769,215	-	-	-	1,769,215
Mainland Fire	-	-	430,084	-	-	430,084
Rubbish collection	-	-	-	479,828	-	479,828
D.A.R.E.	-	-	-	-	3,208	3,208
Drug enforcement	-	-	-	-	616	616
Harsen's Island Fire	-	-	-	-	188,829	188,829
Oaklawn Cemetery	-	-	-	-	190,363	190,363
Colony Bridge	-	-	-	-	5,933	5,933
Special lighting	-	-	-	-	1,259	1,259
Road maintenance	-	-	-	-	37,810	37,810
Russell Island Fire	-	-	-	-	3,713	3,713
Special assessment refund	-	-	-	-	97,553	97,553
Debt service	-	-	9,094	-	268,920	278,014
Total expenditures	1,901,314	1,769,215	439,178	479,828	798,204	5,387,739
Excess of Revenue Over (Under)						
Expenditures	(312,952)	(51,327)	39,967	1,708	(382,842)	(705,446)
Other Financing Sources (Uses)						
Transfers in (Note 6)	-	-	-	-	18,436	18,436
Transfers out (Note 6)	(18,436)	-	-	-	-	(18,436)
Proceeds from issuance of debt (Note 7)	-	-	-	-	37,897	37,897
Total other financing sources (uses)	(18,436)	-	-	-	56,333	37,897
Net Change in Fund Balances	(331,388)	(51,327)	39,967	1,708	(326,509)	(667,549)
Fund Balances - Beginning of year	3,293,830	355,317	69,707	21,914	1,101,868	4,842,636
Fund Balances - End of year	\$ 2,962,442	\$ 303,990	\$ 109,674	\$ 23,622	\$ 775,359	\$ 4,175,087

Township of Clay

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$	(667,549)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		696,020
Depreciation is recorded as an expense in the statement of activities but not in the governmental funds		(298,271)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end		(154,087)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		237,247
Interest expense is recorded when incurred in the statement of activities		(12,181)
Debt proceeds are not reported as financing sources on the statement of activities		<u>(37,897)</u>

Change in Net Assets of Governmental Activities	\$	<u>(236,718)</u>
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Township of Clay

Proprietary Funds Statement of Net Assets June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and cash equivalents (Note 3)	\$ 2,317,100	\$ 266,182	\$ 2,583,282
Customer receivables	159,185	185,035	344,220
Current portion of special assessments	219,620	-	219,620
Inventories	98,173	18,778	116,951
Prepaid service contracts - Current portion	137,634	-	137,634
Total current assets	2,931,712	469,995	3,401,707
Noncurrent assets:			
Restricted assets (Note 8)	374,250	1,719,036	2,093,286
Special assessments receivable	2,393,891	-	2,393,891
Prepaid service contracts	4,457,908	-	4,457,908
Nondepreciable capital assets (Note 5)	-	32,562	32,562
Depreciable capital assets - Net (Note 5)	10,305,181	8,283,292	18,588,473
Total noncurrent assets	17,531,230	10,034,890	27,566,120
Total assets	20,462,942	10,504,885	30,967,827
Liabilities			
Current liabilities:			
Accounts payable	40,863	70,902	111,765
Accrued and other liabilities	104,007	15,953	119,960
Current portion of long-term debt (Note 7)	636,250	111,154	747,404
Total current liabilities	781,120	198,009	979,129
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	10,379,375	1,643,106	12,022,481
Total liabilities	11,160,495	1,841,115	13,001,610
Net Assets			
Investment in capital assets - Net of related debt	3,420,181	6,597,533	10,017,714
Bond ordinance reserve	-	1,683,097	1,683,097
Equipment replacement	374,250	-	374,250
Unrestricted	5,508,016	383,140	5,891,156
Total net assets	<u>\$ 9,302,447</u>	<u>\$ 8,663,770</u>	<u>\$ 17,966,217</u>

Township of Clay

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Enterprise Funds		
	Water	Sewer	Total
Operating Revenue			
User charges	\$ 749,462	\$ 462,005	\$ 1,211,467
Tap-in fees	70,657	-	70,657
Hydrant rental	23,520	-	23,520
Other operating income	47,579	360	47,939
Total operating revenue	891,218	462,365	1,353,583
Operating Expenses			
Cost of water and sewage disposal	346,805	198,238	545,043
Salaries and wages	174,173	92,000	266,173
Fringe benefits	167,983	-	167,983
Meters, tools, and supplies	76,048	4,983	81,031
Administration fee	35,000	-	35,000
Utilities	21,440	8,223	29,663
Repairs and maintenance	9,067	7,020	16,087
Depreciation and amortization	406,392	313,470	719,862
Other operating expenses	79,834	42,141	121,975
Total operating expenses	1,316,742	666,075	1,982,817
Operating Loss	(425,524)	(203,710)	(629,234)
Nonoperating Revenue (Expenses)			
Investment income (loss)	230,321	(11,620)	218,701
Interest expense	(477,968)	(101,324)	(579,292)
Other expense	-	(186,482)	(186,482)
Debt service charges	190,616	-	190,616
Total nonoperating expenses	(57,031)	(299,426)	(356,457)
Net Loss - Before capital contributions	(482,555)	(503,136)	(985,691)
Capital Contributions	96,759	34,400	131,159
Change in Net Assets	(385,796)	(468,736)	(854,532)
Net Assets - Beginning of year	9,688,243	9,132,506	18,820,749
Net Assets - End of year	<u>\$ 9,302,447</u>	<u>\$ 8,663,770</u>	<u>\$ 17,966,217</u>

Township of Clay

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Water	Sewer
Cash Flows from Operating Activities		
Receipts from customers	\$ 808,639	\$ 467,889
Payments to suppliers	(558,032)	(252,639)
Payments to employees	(342,156)	(92,000)
Other receipts	47,579	360
Net cash (used in) provided by operating activities	(43,970)	123,610
Cash Flows from Noncapital Financing Activities - Other financing expense	-	(186,482)
Cash Flows from Capital and Related Financing Activities		
Collection of customer assessments (principal and interest)	690,890	34,400
Collection of debt service charge	190,616	-
Purchase of capital assets	(14,906)	-
Principal and interest paid on capital debt	(1,902,621)	(190,447)
Net cash used in capital and related financing activities	(1,036,021)	(156,047)
Cash Flows from Investing Activities - Interest received on investments	230,321	(11,620)
Net Decrease in Cash and Cash Equivalents	(849,670)	(230,539)
Cash and Cash Equivalents - Beginning of year	3,541,020	2,179,818
Cash and Cash Equivalents - End of year	<u>\$ 2,691,350</u>	<u>\$ 1,949,279</u>
Balance Sheet Classification of Cash and Cash Equivalents		
Cash and cash equivalents	\$ 2,317,100	\$ 266,182
Restricted investments (Note 8)	374,250	1,683,097
Total cash and cash equivalents	<u>\$ 2,691,350</u>	<u>\$ 1,949,279</u>
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (425,524)	\$ (203,710)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation and amortization	406,392	313,470
Changes in assets and liabilities:		
Receivables	(35,000)	5,884
Inventories	22,854	107
Accounts payable	(12,692)	7,859
Net cash (used in) provided by operating activities	<u>\$ (43,970)</u>	<u>\$ 123,610</u>

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2004, St. Clair County constructed sewer lines totaling approximately \$489,000 on behalf of the Township with bond proceeds remaining from 2003.

Township of Clay

Fiduciary Funds Statement of Net Assets June 30, 2004

	Employee Health Care Fund	Agency Fund
Assets - Cash and investments (Note 3)	\$ 368,697	<u><u>\$ 164,381</u></u>
Liabilities		
Accrued and other liabilities	-	\$ 26,432
Due to other governmental units	-	14,247
Performance bonds and deposits	-	<u>123,702</u>
Total liabilities	-	<u><u>\$ 164,381</u></u>
Net Assets - Held in trust for pension and other employee benefits	<u><u>\$ 368,697</u></u>	

Township of Clay

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Trust Fund - Employee Health Care Fund
Additions	
Investment income	\$ 3,645
Employer contribution	<u>110,000</u>
Total additions	<u>113,645</u>
Net Increase	113,645
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>255,052</u>
End of year	<u><u>\$ 368,697</u></u>

Township of Clay

Component Units Statement of Net Assets June 30, 2004

	Downtown Development Authority
Assets - Cash and investments (Note 3)	\$ 528,878
Liabilities - Accounts payable	10,193
Net Assets - Unrestricted	<u><u>\$ 518,685</u></u>

Township of Clay

Component Units Statement of Activities Year Ended June 30, 2004

			Net (Expense) Revenue and Changes in Net Assets
	Program Revenues		
	Charges for		
Expenses	Services		Total
Downtown Development Authority - Community and economic development	\$ 107,723	\$ -	\$ (107,723)
General revenues:			
Property taxes		\$ 235,061	
Unrestricted investment earnings		9,039	
Total general revenues		244,100	
Change in Net Assets		136,377	
Net Assets - Beginning of year		382,308	
Net Assets - End of year		\$ 518,685	

Note I - Summary of Significant Accounting Policies

The accounting policies of the Township of Clay (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Reporting Entity

The Township is governed by an elected seven-member Board of Trustees. The accompanying financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the Township's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Township (see discussion below for description).

Blended Component Units - The Clay Township Building Authority is governed by a board that is appointed by the Board of Trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the Township's public buildings. There was no activity in the Building Authority during the 2004 fiscal year.

Discretely Presented Component Units - The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of nine individuals, is selected by the Board of Trustees. In addition, the Authority's budget is subject to approval by the Board of Trustees. Complete financial statements can be obtained from Township of Clay at 4710 Pointe Tremble Road, Algonac, Michigan 48001.

Harsen's Island Transportation Authority - The Harsen's Island Transportation Authority was created to assist the transportation of people and goods between the mainland and Harsen's Island. The governing body, which consists of five individuals, is selected by the Township Board of Trustees. In addition, any budgets of the Authority will be subject to approval by the Board of Trustees. As of this date, the Authority has not begun any financial activities.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Clay Township Police Fund - The Clay Township Police Fund is used to account for the operations of law enforcement activity in the Township. Funding is provided primarily through a local property tax levy.

Mainland Fire Fund - The Mainland Fire Fund is used to account for the operations of firefighting activity in the Township. Funding is provided primarily through a local property tax levy.

Rubbish Collection Fund - The Rubbish Collection Fund accounts for the operations of the refuse disposal activities of the Township. Funding is provided primarily through charges for services.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system. Funding is provided primarily through user charges.

Sewer Fund - The Sewer Fund accounts for the activities of the sewage collection system. Funding is provided primarily through user charges.

Additionally, the Township reports the following fund types:

Other Employee Benefits Trust Fund - The Other Employee Benefits Trust Fund accounts for the activities of the employee benefit plan which accumulates resources for other postemployment benefit payments to qualified employees.

Agency Funds - The Agency Fund accounts for assets held by the Township in a trustee capacity. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Funds also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2003 tax is levied and collectible on December 1, 2003 and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$397 million for operations, \$388 million for police services, \$278 million for Mainland fire services, \$98 million for Harsen's Island fire services, and \$5 million for Russell Island fire services (a portion of which is captured by the DDA for the operations, police, and Mainland fire tax bases). Taxes levied consisted of .5873 mills for operating purposes, 4.35 mills for police services, 1.375 mills for Mainland fire services, 1.75 mills for Harsen's Island fire services, and .9 mills for Russell Island fire services. This resulted in \$228,000 for operating, \$1.6 million for police services, \$355,000 for Mainland fire services, \$171,000 for Harsen's Island fire services, and \$4,000 for Russell Island fire services. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from all funds is generally allocated to each fund based on relative participation in the pool, except that Agency Funds investment earnings are allocated to the General Fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The Township has contracts with the City of Algonac to set amounts aside in the Water Fund for maintenance, repair, and equipment replacement of the water system. The sewer ordinance requires amounts to be set aside for debt service on sewer system debt, and maintenance, repair, and equipment replacement of the sewer system. Amounts on deposit at the County are being held for the construction of the Township's sewer lines.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., sidewalks and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Underground mains	50 years
Sewage treatment plant	50 years
Buildings and building improvements	20 to 50 years
Vehicles and equipment	3 to 20 years
Furniture and fixtures	7 to 20 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to not permit employees to accumulate earned but unused sick and vacation pay benefits at the end of the year. There is no liability for unpaid accumulated vacation and sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note I - Summary of Significant Accounting Policies (Continued)

Comparative Data/Reclassifications - Comparative data is not included in the Township's financial statements.

Accounting and Reporting Change

GASB Statement No. 34 - In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Township of Clay has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities, including infrastructure (sidewalks, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$2,341,000 to reflect the historical cost of the Township's capital assets at that date. Of this amount, approximately \$560,000 represents the cost of fire trucks and a fire rescue boat not recorded in previous years.
- The governmental activities column includes bonds and other long-term obligations totaling \$1,595,000 previously reported in the General Long-term Debt Account Group. An additional \$506,000 was added to the June 30, 2003 balance to recognize debt related to the purchase of fire trucks and a fire rescue boat not recorded in previous year.

Revenue Recognition - The Township changed its method of accounting for state-shared revenue. Beginning in 2004, state-shared revenue collected within 60 days of the end of the current fiscal period is recognized as revenue in the current period. Previously, the Township accrued state-shared revenue collected within 30 days of the end of the current fiscal period. As a result, an additional \$115,125 was recognized as state-shared revenue as of June 30, 2004.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information

The annual budget is prepared by the Township supervisor and adopted by the Township Board; subsequent amendments are approved by the Township Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, except that operating transfers have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." The budgetary comparison schedules (General Fund and major Special Revenue Funds) are presented on the same basis of accounting used in preparing the adopted budget.

The budget has been adopted on a fund-total basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as adopted by the Township Board is included in the required supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have significant expenditure budget variances.

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Beginning balance - Shortfall		\$ (186,255)
Building permit revenue		129,328
Related expenses:		
Direct costs	\$ 252,646	
Estimated indirect costs	<u>10,156</u>	
Total construction code expenses		<u>262,802</u>
Ending balance - Shortfall		<u><u>\$ (319,729)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Township has designated three banks for the deposit of its funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government, bankers' acceptances of United States banks, commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase, mutual funds composed of investment vehicles that are legal for direct investment by local units of government, investment pools organized under the Surplus Funds Investment Act, investment pools organized under the Local Government Investment Pool Act, and CDs.

The Township's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Fiduciary Funds	Component Units
Cash and investments	\$ 4,072,443	\$ 2,583,282	\$ 6,655,725	\$ 533,078	\$ 528,878
Restricted assets	-	2,057,347	2,057,347	-	-
Total	<u>\$ 4,072,443</u>	<u>\$ 4,640,629</u>	<u>\$ 8,713,072</u>	<u>\$ 533,078</u>	<u>\$ 528,878</u>

Township of Clay

Notes to Financial Statements June 30, 2004

Note 3 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the Township is as follows:

	Primary Government	Fiduciary Funds	Component Unit
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 1,682,240	\$ 164,390	\$ 528,878
Investments in securities, mutual funds, and similar vehicles	7,030,058	368,688	-
Petty cash or cash on hand	774	-	-
Total	<u>\$ 8,713,072</u>	<u>\$ 533,078</u>	<u>\$ 528,878</u>

Deposits

The bank balance of the Township's deposits is \$1,904,401, of which \$300,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The component units' deposits had a bank balance of \$528,878, of which \$143,503 was covered by federal depository insurance and the remainder was uninsured.

Investments

The Township's investments consisted solely of mutual funds managed by Ameritas Investment Corporation. These mutual funds are registered with the SEC. Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, these funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. The Township believes that the investment in these funds complies with the investment authority noted above. The Employee Health Care Fund is also allowed to invest portions of its portfolio in common stock, real estate, mortgages, and other limited investment vehicles.

Note 4 - Deferred Revenue

The governmental funds have reported \$671,289 of deferred revenue in connection with special assessment receivables that are not considered to be available to liquidate liabilities of the current period.

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 70,000	\$ -	\$ -	\$ 70,000
Construction in progress	185,813	-	185,813	-
Subtotal	255,813	-	185,813	70,000
Capital assets being depreciated:				
Infrastructure	583,095	-	-	583,095
Buildings and improvements	3,121,651	613,360	-	3,735,011
Vehicles and equipment	2,398,054	265,180	-	2,663,234
Furniture and fixtures	59,607	3,293	-	62,900
Subtotal	6,162,407	881,833	-	7,044,240
Accumulated depreciation:				
Infrastructure	185,923	29,155	-	215,078
Buildings and improvements	1,203,244	96,702	-	1,299,946
Vehicles and equipment	1,181,211	167,953	-	1,349,164
Furniture and fixtures	9,026	4,461	-	13,487
Subtotal	2,579,404	298,271	-	2,877,675
Net capital assets being depreciated	3,583,003	583,562	-	4,166,565
Net capital assets	\$ 3,838,816	\$ 583,562	\$ 185,813	\$ 4,236,565

Note 5 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<u>Business-type Activities</u>				
Water Fund				
Capital assets being depreciated:				
Underground mains	\$ 12,689,912	\$ 14,906	\$ -	\$ 12,704,818
Buildings	250,000	-	-	250,000
Vehicles and equipment	244,387	-	-	244,387
Subtotal	13,184,299	14,906	-	13,199,205
Accumulated depreciation:				
Underground mains	2,331,482	262,925	-	2,594,407
Buildings	55,000	5,000	-	60,000
Vehicles and equipment	232,087	7,530	-	239,617
Subtotal	2,618,569	275,455	-	2,894,024
Net capital assets - Water Fund	10,565,730	(260,549)	-	10,305,181
Sewer Fund				
Capital assets not being depreciated:				
Land	32,562	-	-	32,562
Construction in progress	525,070	-	525,070	-
Subtotal	557,632	-	525,070	32,562
Capital assets being depreciated:				
Underground mains	9,800,988	-	-	9,800,988
Sewage treatment plant	4,314,434	1,014,061	-	5,328,495
Buildings	257,950	-	-	257,950
Vehicles and equipment	79,011	-	-	79,011
Subtotal	14,452,383	1,014,061	-	15,466,444
Accumulated depreciation:				
Underground mains	5,001,034	196,020	-	5,197,054
Sewage treatment plant	1,741,632	107,289	-	1,848,921
Buildings and building improvements	56,749	5,159	-	61,908
Vehicles and equipment	70,267	5,002	-	75,269
Subtotal	6,869,682	313,470	-	7,183,152
Net capital assets being depreciated	7,582,701	700,591	-	8,283,292
Net capital assets - Sewer Fund	8,140,333	700,591	525,070	8,315,854
Net business-type activity capital assets	\$ 18,706,063	\$ 440,042	\$ 525,070	\$ 18,621,035

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 63,835
Public safety	197,768
Public works	12,500
Community and economic development	<u>24,168</u>
Total governmental activities	<u>\$ 298,271</u>
Business-type activities:	
Water	\$ 275,455
Sewer	<u>313,470</u>
Total business-type activities	<u>\$ 588,925</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Police Fund (Major Fund)	<u>\$ 94,038</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Colony Bridge Assessment Fund	\$ 18,436

Note 7 - Long-term Debt

The Township of Clay issues bonds to provide for the acquisition and construction of major capital facilities. County contractual agreements and installment purchase agreements are general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Installment purchase agreements:							
2003 Mausoleum term notes	5.100%	\$22,307 -					
Amount of issue: \$265,000		\$222,157	\$ 265,000	\$ -	\$ (20,699)	\$ 244,301	\$ 22,307
Maturing through 2005							
2003 Mausoleum term notes	7.000%	\$4,692 -					
Amount of issue: \$60,000		\$50,923	60,000	-	(4,222)	55,778	4,692
Maturing through 2005							
Mainland fire truck term note	3.770%	\$53,502 -					
Amount of issue: \$ 271,837		\$58,046	218,642	-	(51,366)	167,276	53,502
Maturing through 2007							
Harsen's Island fire truck and rescue							
boat term note		\$37,550 -					
Amount of issue: \$287,688	4.360%	\$46,621	287,688	-	(35,960)	251,728	37,550
Maturing through 2010							
Harsen's Island airboat term note	6.500%	\$12,452 -					
Amount of issue: \$37,897		\$13,006		37,897	-	37,897	12,452
Maturing through 2007							
Special assessment bonds:							
1994 Special Assessment Bonds	5.60% -	-					
Amount of issue: \$500,000	6.10%		50,000	-	(50,000)	-	-
Maturing through 2004							
2000 Special Assessment Bonds	5.10% -	\$70,000 -					
Amount of issue: \$1,360,000	5.50%	\$75,000	1,220,000	-	(75,000)	1,145,000	70,000
Maturing through 2020							
Total governmental activities			\$ 2,101,330	\$ 37,897	\$ (237,247)	\$ 1,901,980	\$ 200,503

Township of Clay

Notes to Financial Statements June 30, 2004

Note 7 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities Water Fund							
Contractual obligations with St. Clair County:							
1992 County Water Supply							
Amount of issue: \$250,000	5.50% -	\$10,000 -					
Maturing through 2018	6.70%	\$20,000	\$ 210,000	\$ -	\$ (10,000)	\$ 200,000	\$ 10,000
1998 Algonac Water Plant (through the Michigan Drinking Water Revolving Fund Program). Township portion is 62.5%							
Amount of issue: \$7,830,600	2.50%	\$218,750 -					
Maturing through 2020		\$302,500	4,336,875	-	(206,250)	4,130,625	218,750
1999 Water System No. II-A (Refunding)							
Amount of issue: \$1,485,000	3.300% -	\$90,000 -					
Maturing through 2017	8.125%	\$110,000	1,355,000	-	(90,000)	1,265,000	90,000
Deferred amount on refunding			(112,500)	-	7,500	(105,000)	(7,500)
2002 Water Supply System No. II-A							
Amount of issue: \$6,175,000	3.875% -	\$325,000					
Maturing through 2021	5.000%		5,850,000	-	(325,000)	5,525,000	325,000
Revenue bonds - 1979 Series C Water bonds							
Amount of issue: \$2,100,000	5.00%	-					
Maturing through 2004			805,000	-	(805,000) *	-	-
Total Water Fund			12,444,375	-	(1,428,750)	11,015,625	636,250
Sewer Fund							
Contractual obligations with St. Clair County:							
1999 Sewage System No. I							
Amount of issue: \$2,160,000	5.00% -	\$77,904 -					
Maturing through 2012	5.125%	\$101,708	809,336	-	(73,576)	735,760	77,904
2003 County Sewage Disposal System I Bonds							
Amount of issue: \$3,000,000	3.375% -	\$33,250 -					
Maturing through 2023	4.600%	\$80,500	1,050,000	-	(31,500)	1,018,500	33,250
Total Sewer Fund			1,859,336	-	(105,076)	1,754,260	111,154
Total business-type activities			\$ 14,303,711	\$ -	\$ (1,533,826)	\$ 12,769,885	\$ 747,404

* This bond issue was redeemed in 2004. Of the total \$805,000 deduction, \$40,000 was a scheduled principal payment and \$765,000 was redeemed.

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 200,503	\$ 93,278	\$ 293,781	\$ 747,404	\$ 482,497	\$ 1,229,901
2006	450,547	84,261	534,808	753,482	454,924	1,208,406
2007	186,907	61,205	248,112	759,560	427,003	1,186,563
2008	112,756	52,820	165,576	786,263	398,415	1,184,678
2009	114,647	47,359	162,006	792,341	368,989	1,161,330
2010-2014	406,620	163,561	570,181	3,961,210	1,376,198	5,337,408
2015-2019	360,000	67,489	427,489	3,716,125	614,969	4,331,094
2020-2023	70,000	1,925	71,925	1,253,500	64,060	1,317,560
Total	\$ 1,901,980	\$ 571,898	\$ 2,473,878	\$ 12,769,885	\$ 4,187,055	\$ 16,956,940

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities		
	Water Fund	Sewer Fund	Total
Cash and investments:			
Contract with City of Algonac	\$ 50,250	\$ -	\$ 50,250
Equipment Replacement Fund	324,000	-	324,000
Bond ordinance requirement	-	1,683,097	1,683,097
Total cash and investments	374,250	1,683,097	2,057,347
Assets held at County	-	35,939	35,939
Total restricted assets	<u>\$ 374,250</u>	<u>\$ 1,719,036</u>	<u>\$ 2,093,286</u>

The contract with the City of Algonac and the Equipment Replacement Fund are restricted for maintenance, repair, and equipment replacement of the water system. The bond ordinance requirement is restricted for debt service on sewer debt and maintenance, repair, and equipment replacement of the sewer system. The assets held at the County for the Sewer Fund represent the Township's portion of the remaining cash maintained by the St. Clair County Department of Public Works for the 2003 St. Clair County Sewage Disposal System I bonds.

Note 9 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for workers' compensation and medical benefit claims and participates in the State Pool program of the Michigan Municipal Risk Management Authority for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The State Pool program of the Michigan Municipal Risk Management Authority risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Note 10 - Defined Benefit Pension Plan

Plan Description - The Township participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers substantially all employees of the Township. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Township's collective bargaining units and requires a contribution from the employees of 4.8 percent to 7.11 percent of gross wages.

Annual Pension Cost - For the year ended June 30, 2004, the Township's annual pension cost of \$156,244 for the plan was equal to the Township's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, and (c) 2.5 percent per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3-4 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three-year Trend Information

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 156,244	\$ 136,526	\$ 130,880
Percentage of APC contributed	100%	100%	100%
Net pension obligation	None	None	None

Note 10 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2003	2002	2001
Actuarial value of assets	\$ 2,280,924	\$ 2,008,043	\$ 1,815,292
Actuarial Accrued Liability (AAL)			
(entry age normal)	\$ 3,988,670	\$ 3,386,005	\$ 2,841,475
Unfunded AAL (UAAL)	\$ 1,707,746	\$ 1,377,962	\$ 1,026,183
Funded ratio	57%	59%	64%
Covered payroll	\$ 1,611,081	\$ 1,640,431	\$ 1,445,328
UAAL as a percentage of covered payroll	106%	84%	71%

Note 11 - Postemployment Benefits

The Township provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, eight retirees are eligible. The Township includes pre-Medicare retirees and their dependents in its insured health care plan, with participants paying \$125 to cover spouses and 100 percent of dependent care cost. The Township purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$63,000.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Note 12 - Joint Ventures

The Township is a member of the Downriver Recreation Commission, which provides recreational services to the residents of the Township and the City of Algonac. The participating communities provide annual funding for its operations. During the current year, the Township contributed \$39,200 for its operations. The Township does not have an equity interest in the Commission. Complete financial statements for the Commission can be obtained from the administrative offices at Algonquin Junior High School, 9185 Marsh Road, Algonac, MI 48001. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating communities in the near future.

Required Supplemental Information

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 367,538	\$ 367,538	\$ 376,402	\$ 8,864
Licenses and permits	135,700	135,700	131,193	(4,507)
Intergovernmental revenue:				
State sources	736,880	736,880	816,958	80,078
Local sources	37,000	37,000	35,487	(1,513)
Grant revenue	295,298	295,298	-	(295,298)
Charges for services	105,000	105,000	93,301	(11,699)
Investment income	144,075	144,075	51,924	(92,151)
Special and maintenance assessment	20,199	20,199	49,344	29,145
Other	5,200	5,200	33,753	28,553
Total revenue	1,846,890	1,846,890	1,588,362	(258,528)
Expenditures				
Salaries:				
Supervisor	40,000	40,000	40,000	-
Clerk	51,000	51,000	51,000	-
Treasurer	49,000	49,000	49,000	-
Permanent employees	348,421	348,421	384,349	(35,928)
Fringe benefits	188,000	188,000	203,382	(15,382)
Township Board	15,000	15,000	11,520	3,480
Recreation	46,000	47,200	47,200	-
Board of Review	4,000	4,000	4,530	(530)
Commission fees	15,000	15,000	12,997	2,003
Elections	25,000	25,000	1,013	23,987
Office supplies	16,500	16,500	14,330	2,170
Postage	20,000	20,000	21,298	(1,298)
Gasoline and oil	2,000	2,000	1,790	210
Legal fees	55,000	55,000	54,557	443
Accounting and auditing fees	40,000	40,000	38,070	1,930
Consultant fees	17,200	17,200	8,402	8,798
Planning fees	20,000	20,000	12,191	7,809
Data processing	30,000	30,000	30,226	(226)
Telephone	8,240	8,240	10,983	(2,743)
Transportation	2,500	2,500	2,776	(276)
Advertising and publications	16,000	16,000	15,547	453
General and workers' compensation insurance	37,000	37,000	35,432	1,568

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted by fund totals.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Park and recreation project	\$ 442,947	\$ 442,947	\$ -	\$ 442,947
Utilities	27,000	27,000	29,281	(2,281)
Property maintenance	21,500	21,500	22,503	(1,003)
County road maintenance	450,000	450,000	374,785	75,215
Special assessment projects	20,000	20,000	28,487	(8,487)
Memberships and dues	10,000	10,000	17,070	(7,070)
Education and training	4,000	4,000	4,244	(244)
Transfer to library	15,000	15,000	15,000	-
Equipment rental	15,000	15,000	13,536	1,464
Equipment	37,171	37,171	2,615	34,556
Miscellaneous	12,700	12,700	27,929	(15,229)
Inspection fees	42,000	42,000	56,818	(14,818)
Colony Tower restoration	225,000	225,000	258,453	(33,453)
Transfers out	22,324	22,324	18,436	3,888
Total expenditures	<u>2,390,503</u>	<u>2,391,703</u>	<u>1,919,750</u>	<u>471,953</u>
Excess of Expenditures Over Revenue	(543,613)	(544,813)	(331,388)	213,425
Fund Balance - Beginning of year	<u>3,293,830</u>	<u>3,293,830</u>	<u>3,293,830</u>	<u>-</u>
Fund Balance - End of year	<u>\$ 2,750,217</u>	<u>\$ 2,749,017</u>	<u>\$ 2,962,442</u>	<u>\$ 213,425</u>

Note: The line-item budget information presented is for analytical purposes only. The official budget was adopted by fund totals.

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2004

Clay Township Police Fund			
	Original Budget	Amended Budget	Variance with Amended Budget
Revenue			
Property taxes	\$ 1,601,042	\$ 1,601,042	\$ 1,601,044 \$ 2
Federal grant	1,900	1,900	- (1,900)
Liquor license fee	9,000	9,000	8,694 (306)
Fines	20,500	20,500	22,071 1,571
Police reports	1,200	1,200	945 (255)
Dispatch fees	16,700	16,700	16,700 -
State training grant	38,500	38,500	40,315 1,815
Investment income	8,000	8,000	4,894 (3,106)
Other	20,750	20,750	23,225 2,475
Total revenue	1,717,592	1,717,592	1,717,888 296
Expenditures			
Salaries and fringes	1,588,766	1,588,766	1,495,043 93,723
Legal fees	32,000	32,000	23,330 8,670
Insurance	71,754	71,754	62,495 9,259
Facility	22,600	22,600	22,583 17
Vehicles, equipment operation, and maintenance	38,500	38,500	42,983 (4,483)
Capital outlay	59,000	59,000	55,033 3,967
Other administrative fees	82,246	82,246	67,748 14,498
Total expenditures	1,894,866	1,894,866	1,769,215 125,651
Excess of Expenditures Over Revenue	(177,274)	(177,274)	(51,327) 125,947
Fund Balance - Beginning of year	355,317	355,317	355,317 -
Fund Balance - End of year	<u>\$ 178,043</u>	<u>\$ 178,043</u>	<u>\$ 303,990</u> <u>\$ 125,947</u>

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2004

	Mainland Fire Fund			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
Revenue				
Property taxes	\$ 358,491	\$ 358,491	\$ 358,492	\$ 1
Grant revenue	-	118,945	118,945	-
Investment income (loss)	600	600	(1,248)	(1,848)
Other	2,700	2,700	2,956	256
Total revenue	361,791	480,736	479,145	(1,591)
Expenditures				
Wages and fringes	146,160	146,160	139,537	6,623
Other current services	132,860	132,860	105,444	27,416
Capital outlay	99,760	218,705	185,103	33,602
Debt service	-	-	9,094	(9,094)
Total expenditures	378,780	497,725	439,178	58,547
Excess of Revenue Over (Under) Expenditures	(16,989)	(16,989)	39,967	56,956
Fund Balances - Beginning of year	69,707	69,707	69,707	-
Fund Balances - End of year	<u>\$ 52,718</u>	<u>\$ 52,718</u>	<u>\$ 109,674</u>	<u>\$ 56,956</u>

Township of Clay

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2004

	Rubbish Collection Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
Property taxes	\$ 479,880	\$ 479,880	\$ 479,880	\$ -
Investment income	150	150	123	(27)
Other	<u>1,500</u>	<u>1,500</u>	<u>1,533</u>	<u>33</u>
Total revenue	481,530	481,530	481,536	6
Expenditures				
Rubbish contract	481,030	481,030	479,578	1,452
Refund and other	<u>3,500</u>	<u>3,500</u>	<u>250</u>	<u>3,250</u>
Total expenditures	<u>484,530</u>	<u>484,530</u>	<u>479,828</u>	<u>4,702</u>
Excess of Revenue Over (Under) Expenditures	(3,000)	(3,000)	1,708	4,708
Fund Balances - Beginning of year	<u>21,914</u>	<u>21,914</u>	<u>21,914</u>	<u>-</u>
Fund Balances - End of year	<u><u>\$ 18,914</u></u>	<u><u>\$ 18,914</u></u>	<u><u>\$ 23,622</u></u>	<u><u>\$ 4,708</u></u>

Other Supplemental Information

Township of Clay

	Nonmajor Special Revenue Funds					
	D.A.R.E.	Drug Enforcement	Harsen's Island Fire	Russell Island Fire	Oaklawn Cemetery	Special Lighting
Assets						
Cash and investments	\$ 1,085	\$ 10,003	\$ 36,491	\$ 2,391	\$ 70,791	\$ 1,372
Special assessment receivable	-	-	-	-	-	-
Total assets	<u>\$ 1,085</u>	<u>\$ 10,003</u>	<u>\$ 36,491</u>	<u>\$ 2,391</u>	<u>\$ 70,791</u>	<u>\$ 1,372</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 5,198	\$ -	\$ -	\$ -
Deferred revenue	-	-	-	-	-	-
Total liabilities	-	-	5,198	-	-	-
Fund Balances						
Reserved	-	10,003	31,293	2,391	50,518	-
Unreserved	1,085	-	-	-	20,273	1,372
Total fund balances	1,085	10,003	31,293	2,391	70,791	1,372
Total liabilities and fund balances	<u>\$ 1,085</u>	<u>\$ 10,003</u>	<u>\$ 36,491</u>	<u>\$ 2,391</u>	<u>\$ 70,791</u>	<u>\$ 1,372</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004**

Nonmajor Special Revenue Funds		Capital Projects Funds		Total Nonmajor Governmental Funds
Road Maintenance	Explorer Program	Colony Bridge Assessment	Colony Road Assessment	
\$ 42,334	\$ 1,023	\$ -	\$ 615,067	\$ 780,557
-	-	-	496,079	496,079
\$ 42,334	\$ 1,023	\$ -	\$ 1,111,146	\$ 1,276,636
\$ -	\$ -	\$ -	\$ -	\$ 5,198
-	-	-	496,079	496,079
-	-	-	496,079	501,277
-	-	-	-	94,205
42,334	1,023	-	615,067	681,154
42,334	1,023	-	615,067	775,359
\$ 42,334	\$ 1,023	\$ -	\$ 1,111,146	\$ 1,276,636

Township of Clay

	Nonmajor Special Revenue Funds					
	D.A.R.E.	Drug Enforcement	Harsen's Island Fire	Russell Island Fire	Oaklawn Cemetery	Special Lighting
Revenue						
Property taxes	\$ -	\$ -	\$ 171,053	\$ 4,474	\$ -	\$ -
Charges for services	-	-	-	-	41,949	-
Investment income	8	57	718	16	3,186	-
Special assessments	-	-	-	-	-	1,259
Other	2,025	633	7,240	-	-	-
Total revenue	2,033	690	179,011	4,490	45,135	1,259
Expenditures						
Current:						
D.A.R.E.	3,208	-	-	-	-	-
Drug enforcement	-	616	-	-	-	-
Harsen's Island Fire	-	-	188,829	-	-	-
Oaklawn Cemetery	-	-	-	-	190,363	-
Colony Bridge	-	-	-	-	-	-
Special lighting	-	-	-	-	-	1,259
Road maintenance	-	-	-	-	-	-
Russell Island Fire	-	-	-	3,713	-	-
Special assessment refund	-	-	-	-	-	-
Debt service	-	-	35,959	-	43,325	-
Total expenditures	3,208	616	224,788	3,713	233,688	1,259
Excess of Revenue Over (Under)						
Expenditures	(1,175)	74	(45,777)	777	(188,553)	-
Other Financing Sources						
Proceeds from issuance of debt	-	-	37,897	-	-	-
Transfers in	-	-	-	-	-	-
Total other financing sources	-	-	37,897	-	-	-
Net Change in Fund Balances	(1,175)	74	(7,880)	777	(188,553)	-
Fund Balances - Beginning of year	2,260	9,929	39,173	1,614	259,344	1,372
Fund Balances - End of year	<u>\$ 1,085</u>	<u>\$ 10,003</u>	<u>\$ 31,293</u>	<u>\$ 2,391</u>	<u>\$ 70,791</u>	<u>\$ 1,372</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2004

Nonmajor Special Revenue Funds		Capital Projects Funds		
Road Maintenance	Explorer Program	Colony Bridge Assessment	Colony Road Assessment	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 175,527
-	-	-	-	41,949
-	-	1,108	42,878	47,971
32,345	-	13,558	92,855	140,017
-	-	-	-	9,898
32,345	-	14,666	135,733	415,362
-	-	-	-	3,208
-	-	-	-	616
-	-	-	-	188,829
-	-	-	-	190,363
-	-	-	5,933	5,933
-	-	-	-	1,259
37,810	-	-	-	37,810
-	-	-	-	3,713
-	-	-	97,553	97,553
-	-	52,806	136,830	268,920
37,810	-	52,806	240,316	798,204
(5,465)	-	(38,140)	(104,583)	(382,842)
-	-	-	-	37,897
-	-	18,436	-	18,436
-	-	18,436	-	56,333
(5,465)	-	(19,704)	(104,583)	(326,509)
47,799	1,023	19,704	719,650	1,101,868
\$ 42,334	\$ 1,023	\$ -	\$ 615,067	\$ 775,359

Township of Clay

Enterprise Funds (Water and Sewer) Water Fund Schedule of Debt Coverage Under The Revenue Bond Ordinance

	Year Ended June 30	
	2004	2003
Gross Revenue		
User charges	\$ 749,462	\$ 716,221
Tap-in fees (including contributed capital portion)	70,657	159,852
Hydrant fees	23,520	23,030
Other operating income	47,579	48,294
Interest earned	230,321	362,956
Debt service charges	190,616	174,057
Surplus cash and investments*	<u>2,463,763</u>	<u>3,102,195</u>
Total gross revenue	3,775,918	4,586,605
Operating Expenses		
Cost of water	346,805	435,759
Salaries and wages	174,173	173,128
Fringe benefits	167,983	134,262
Meters, tools, and supplies	76,048	229,626
Administration fees	35,000	33,000
Utilities	21,440	20,396
Repairs and maintenance	9,067	8,360
Other operating expenses	<u>79,834</u>	<u>51,769</u>
Total operating expenses	<u>910,350</u>	<u>1,086,300</u>
Net Revenue	<u>\$ 2,865,568</u>	<u>\$ 3,500,305</u>
Subsequent Debt Service (P&I)	<u>\$ 1,042,113</u>	<u>\$ 1,128,041</u>
Debt Coverage Ratio	<u>2.75</u>	<u>3.10</u>

* This amount excludes any amounts required to be set aside by the bond ordinance, including bond interest and redemption, bond reserve, and 25 percent of operating and maintenance costs.



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August 25, 2004

Board of Trustees
Clay Township
4710 Pointe Tremble Rd.
Algonac, MI 48001

Dear Board of Trustees:

We have recently completed our audit of the financial statements for the Clay Township the year ended June 30, 2004. As a result of our audit, we offer the following observations and comments for your consideration:

Governmental Accounting Standards Board Statement 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here. You will notice a very different look to the financial statements. Preparing for this new reporting model has required a significant amount of effort by the Township's Accounting Department.

Although there are many differences with this new reporting model, the major additions are as follows:

- **Management Discussion and Analysis:** Management is now required to give an overview of the Township's overall financial position and results of operations.
- **Government-wide Financial Statements:** These additional statements adjust the **fund-based** statements into a combined, **Township wide, full-accrual** format. This allows a financial statement reader to see the Township from a long-term perspective (i.e., are today's taxpayers paying for today's services?). These statements show capital and infrastructure assets, as well as long-term debt, as part of the Township's financial picture.
- **Budget Comparison:** A financial statement reader will now be able to view not only the actual revenue and expenditures of the Township compared to the final amended budget, but also as compared to the original budget for the General Fund and Major Special Revenue Funds.

Revenue Sharing

As you are aware, revenue sharing payments for the State's fiscal year ended September 30, 2003, were reduced by 3.5 percent through a December 2002 Executive Order. The budget for the State's fiscal year ended September 30, 2004, included an *additional* 3 percent reduction in revenue sharing payments from the estimated payments for the State's 2003 fiscal year. These cuts are compounded by reductions that result when sales tax collections are less than what is

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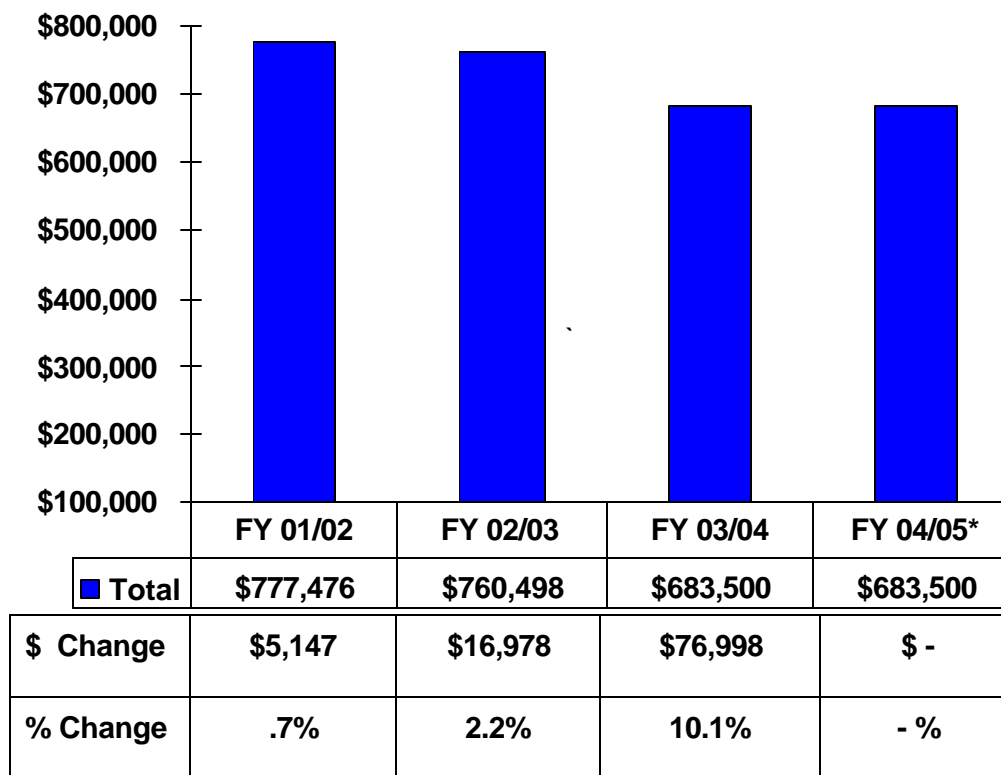
included in the State's projections. In December 2003, the Governor issued an executive order reducing revenue sharing for the State's fiscal year ended September 30, 2004, an additional 5 percent.

In February 2004, the Governor introduced her budget for the State's fiscal year ended September 30, 2005. For cities, villages and townships, the Governor's budget proposal is to keep revenue sharing levels for the September 30, 2005, fiscal year end at the September 30, 2004, fiscal year end levels. However, the proposal eliminates statutory revenue sharing for counties. There is considerable discussion in Lansing about further reductions to state shared revenue from the Governor's budget proposal for fiscal year ended September 30, 2005.

We have attached a chart to provide you with more detail on what has occurred with revenue sharing relative to Clay Township. The chart demonstrates the impact that these cuts in revenue sharing by the State have had on Clay Township. For the Township, revenue sharing funding levels are \$93,976 less for the 2005 fiscal year as compared to fiscal year 2002.

We recommend that the Township continue to evaluate the impact of the revenue sharing reductions on the Township's 2004 and 2005 budget. In addition, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at (517) 373-2697. We will continue to update the Township as developments occur.

Total State Shared Revenue – Clay Township



*Projected (Data Source for all State Fiscal Years Michigan Department of Treasury.)

Property Tax Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2004	2.3%
2003	1.5
2002	3.2
2001	3.2
2000	1.9

Property taxes are a significant source of revenue to the Township. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the Township is involved in long-term financial planning.

Funding of Post-Employment Benefits

The Governmental Accounting Standards Board recently issued an exposure draft addressing the accounting for retiree health care. As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. As a result, GASB is proposing changes that would result in the Township having an actuarial valuation to define the liability and the liability would need to be disclosed in the financial statements. In addition, the Township's funding status, or the progress it has made in accumulating assets to pay for this liability would also be disclosed. Lastly, the Township would be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30-year period. While this change is still in the draft phase, it is expected that it will be adopted in which case you will need to keep this in mind for long-range planning. These changes are expected to be effective 2008.

Computer Security Issues

During the audit and through inquiry of Township personnel, we noted that the Township may want to consider preventative measures to restrict unauthorized employees from posting journal entries to the general ledger. Although the process of posting journal entries can only be undertaken by individuals with expertise in this area, we believe that password protecting this module is still a necessary safeguard. Currently, user identification and passwords are not required to post journal entries and there is no user access restriction to the journal entry module. We are aware the Township is currently in the process of revamping certain elements of its technology security structure. We recommend that the attention be given to password protecting the journal entry function.

Board of Trustees
Clay Township

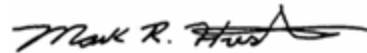
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August 25, 2004

We would like to thank the Township personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

Very truly yours,

PLANTE & MORAN, PLLC

A handwritten signature in black ink, appearing to read "Mark R. Hurst", with a stylized flourish at the end.

Mark R. Hurst

